

June 15, 2007

Winston Hickox
Chair, Cal EPA Market Advisory Committee

Laurence H. Goulder
Vice Chair, Cal EPA Market Advisory Committee

Members, Cal EPA Market Advisory Committee

Subject: Comments on “Recommendations for Designing a Greenhouse Gas Cap-and-Trade System for California,” June 1, 2007

Submitted via email to climatechange@calepa.ca.gov

Dear Chairman Hickox and Market Advisory Committee Members:

The Nature Conservancy appreciates the important and difficult work that the Market Advisory Committee has done in preparing its recent draft report, “Recommendations for Designing a Greenhouse Gas Cap-and-Trade System for California.” The report is thoughtful and comprehensive, and it provides the state with the blueprint for what could be an effective market based mechanism to address global climate change and comply with AB 32. With exceptions noted below, we support the report’s findings and are pleased that, for the most part, it is consistent with the recommendations we submitted last month.

We offer the following comments on the report, which are described in more detail below.

1. The Nature Conservancy generally supports the report’s recommendations regarding the scope of the program and setting the cap in such a way as to assure that the emissions reduction limit in AB32 is met. We support the principle that the cap-and-trade program should be comprehensive and cover as many sectors as possible.
2. The Nature Conservancy supports the report’s recommendation for a meaningful role for offsets. The report properly describes the criteria essential for a credible offset program that meets the need for environmental integrity.
3. The Nature Conservancy supports the report’s recommendation for “using a portion of the allowance value to promote investments that will help the state’s ecosystems and citizens adapt to these impacts,” (p. 53)

As the Market Advisory Committee prepares the final version of this report, we recommend that it include a more complete and detailed role for the forestry- and land-based sectors. Specifically, the report should more fully acknowledge and incorporate the innovative work of the California

Climate Action Registry (CCAR), including especially its ground-breaking Forest Project Protocols. This comprehensive and credible set of project protocols, the most detailed in the world, addresses many issues and concerns raised in the report with respect to monitoring, offsets, and reporting from the forest sector. We encourage the Committee to review the Forest Project Protocols and to incorporate the understanding they represent within the report. Inclusion of the forest and land use sector into the design of an overall program will help the state accelerate emissions reductions and serve as a model for other jurisdictions addressing Global Climate Change.

1. The Nature Conservancy supports the report's recommendations regarding the scope of the program and setting the cap in such a way as to assure that the emissions reduction limit in AB32 is met. A long term cap-and-trade system can produce meaningful reductions in a cost-effective manner and send appropriate long-term price signals to stimulate needed investment in emissions-reducing technologies. A strong cap also encourages early reductions through an offset program (P. 22).

Globally, the loss of forests – deforestation – is responsible for about 20 percent of total carbon dioxide emissions. Locally, California is losing 35,000 acres of conifer and oak forest lands to land-use conversion annually resulting in direct carbon emissions as well as foregone opportunities to store additional carbon. While the report acknowledges that forest policies can result in both emissions and sequestration of carbon, it rejects including the forest sector in the cap because of perceived monitoring difficulties with all sources from “Biological Processes” (p. 25). However, the CCAR forest protocols provide a method to accurately account for and monitor changes in forest carbon over time. Thus, ***The Nature Conservancy recommends that the MAC also examine approaches that would more fully integrate the forest and land use sector with the cap-and-trade program*** as a measure to avoid emissions from deforestation and to produce important environmental co-benefits for ecosystems that will experience direct impacts from climate change. Reducing emissions by preserving existing land uses will also help in controlling sprawl and vehicle miles traveled.

2. The Nature Conservancy supports the report's recommendation that high quality credits be allowed in the program. As the report notes, expanding the program scope by allowing credible documented emission reductions outside the cap can help achieve the limits required by AB 32 sooner and at lower cost than without offsets, while providing important environmental co-benefits. We agree with the recommended offset program objectives and criteria, including the need for an accountability mechanism to ensure that offsets are “real, additional, independently verifiable, permanent, enforceable, predictable and transparent” (p. 54). Fortunately, through the CCAR, California is once again leading the world in addressing these important design issues. The CCAR forest protocols provide both the type of standards-based approach and discrete list of project types recommended in the report (p. 59). The Nature Conservancy strongly recommends that projects involving improved forest and cropland management, reforestation, and forest and grassland conservation be included in an offset program, if these activities are not covered directly by the cap and the quality of these emissions reductions is guaranteed. The CCAR forest protocols also provide a standard against which other offsets can be evaluated and after which offset programs for other sectors can be developed.

3. The Nature Conservancy supports the report's recommendation for "using a portion of the allowance value to promote investments that will help the state's ecosystems and citizens adapt to ... impacts" [from climate change] (p. 53). Climate change is already negatively affecting some communities and ecosystems, and strategies and actions to help them adapt are essential. The report describes well the variety of adaptation actions and worthy public purposes to which funds generated from the program could be allocated (p. 53). To fund these activities, as mentioned above, The Nature Conservancy supports the recommendation that the program will transition to a system with full auction of the allowances under a cap as quickly as feasible and economically desirable, considering an interest in maintaining market stability and gaining experience with the auction mechanism. In addition, The Nature Conservancy advocates dedicating a significant fraction of the allowance auction revenues, not less than 25%, to a Climate Change Adaptation Fund that would assist the natural world and human settlements adapt to the impacts of climate change in California. Additional auction revenues should be set aside for use in the event that they are needed to mitigate effects of transition to the new policy regime.

The Nature Conservancy offers the following recommendations for the final MAC report

- Capitalize on the experience and ground-breaking work of the California Climate Action Registry by incorporating it into the design of the cap and trade system.
- Establish a clear and robust role for the forest and land use sectors that achieves additional emissions reductions by more fully integrating the forest and land-use sectors with the cap-and-trade program.
- Establish model offset project design methodology by recommending inclusion of the CCAR forest project protocols as part of the offset proposal.
- Propose that at least 25% of the allowance revenue be reserved for funding ecosystem and human adaptation projects.

Thank you again for the opportunity to comment on your draft report. We hope that these comments are useful and that your final report includes more specific recommendations in the areas outlined above. Should you have any questions or wish to discuss these topics in more detail, please contact Louis Blumberg at (415) 281-0439.

Sincerely,

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